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Hooked on Spending?

The 2003 Budget Will Show Whether Ottawa Can Hold the Line Against Unsustainable Expenditures

William B.P. Robson

The Backgrounder in Brief

After the program cuts of the mid-1990s and sustained restraint in many expenditure categories through the end of the decade, the federal government is again spending freely. While transfer payments claim the bulk of Canadians' attention, some of the most explosive and alarming growth in spending is on government operations. The issue now is whether Canadians can anticipate sharper program cuts and perhaps even tax increases in the latter part of this decade, or whether the federal budget will restore spending to a sustainable level. The finance minister must act quickly to prevent Ottawa's spending binge from becoming an addiction.

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After the program cuts of the mid-1990s and sustained restraint in many expenditure categories through the end of the decade, the federal government is again spending freely. While transfer payments claim the bulk of Canadians' attention, some of the most explosive and alarming growth in spending is on government operations. Non-defence operating expenditures have grown at an annual rate of nearly ten percent since fiscal year 1999/00, federal government employment is back at its 1995 level and over the past six years the cumulative difference between actual non-defence operating expenditure and what Ottawa would have spent if it had increased these expenditures in line with inflation and population has reached some $6.2 billion. Unless the finance minister can support new spending by reallocating funds from low-priority programs and departments — a process complicated by the current fragmented political scene in Ottawa — the sizeable surpluses that have been a staple of recent budget projections, including the October 2002 Economic and Fiscal Update, will not materialize. Sustained spending growth at recent rates would instead raise risks of a return to federal deficits or higher federal taxes. The 2003 budget will show whether the federal government can kick the spending addiction.

Hooked on Spending?

Since the elimination of the federal government's deficit in the late 1990s, speculation about new spending initiatives has preceded each federal budget. In the run-up to the early 2003 budget, pressures to spend more on defence, cities and, especially, health-care have made this speculation unusually intense.

On its face, Ottawa's fiscal situation seems to permit new money for a variety of programs, while maintaining the trend to lower tax rates and keeping the budget balance in the black. The finance minister regularly reminds Canadians that they live in the only member of the Group of Seven industrialized countries where the government is currently in surplus. A closer look, however, reveals that less robust growth in the economy and in tax revenue would produce a marked deterioration in Ottawa's fiscal situation. The reason is simple: as the fiscal crunch faded into the past, federal program spending rebounded almost across the board. Now that the buoying effect of a rapidly expanding economy on revenues has faded, the federal government's primary balance — the difference between non-interest revenue and non-interest spending — has shrunk.

If any major new commitments in the 2003 budget are not accompanied by cuts elsewhere, unsustainable growth in program spending will pre-empt further tax cuts and increase the risk that federal deficits will re-emerge before the end of the decade. The September 2002 Speech from the Throne (Canada 2002a) and the October 2002 Economic and Fiscal Update (Canada 2002b, 10) promised reallocations and transformation of old spending to new purposes — commendable commitments that urgently need translating into action through the re-establishment of strong central control over the federal budget process. The end of a culture of restraint in Ottawa makes prudent spending policy in the upcoming budget more difficult — and more necessary.

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The Fiscal Crunch and its Aftermath

The story of federal program spending since the fiscal crisis of the mid-1990s has three distinct phases, illustrated in Table 1, which provides a summary breakdown of federal program spending by major components.[1] The first phase runs from the 1994/95 fiscal year and the restraint-oriented 1995 budget, to 1996/97, when cuts affecting most elements of expenditure brought Ottawa's program spending to its trough (summarized in the left columns of the two panels on the right side of the table). The second phase, from 1996/97 to 1999/00, presents a more mixed picture, but one in which restraint continued to contain spending in many areas (summarized in the middle columns of the panels). The third, from 1999/00 to the present, marks a resurgence of spending, most notably in the federal government's own operations (summarized in the right columns of the panels).

The Initial Squeeze: 1994/95 to 1996/97

As is well known, cuts in transfer payments (shown in Table 2) were a centrepiece of the attack on the deficit in the first phase. A number of programs contributed to an overall decline of $9.5 billion in transfers (see the left columns of the panels on the right side of the table). Declines in unemployment and reforms to reduce repeat use brought Employment Insurance (EI) expenditures down by $2.4 billion and the controversial cuts to federal-provincial payments in support of health, education and welfare accounted for a further $4.7 billion of the decline.[2] At the same time, with elderly benefits and Equalization (fiscal arrangements) transfers to the provinces still growing, achieving the overall decline meant that many discretionary programs also underwent surgery.

Grants flowing out of the Departments of Foreign Affairs and International Trade (FAIT), Human Resource Development (HRD), Natural Resources, Public Works and Transport — even Indian Affairs and Northern Development (IAND) — dropped by hundreds of millions, for a $2.5 billion decline in departmental transfer payments between 1994/95 and 1996/97. Spending on crown corporations, such as

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1 Changes in accounting practices complicate comparisons of federal spending from year to year. The aggregate figures in Table 1 are consistent with the latest public accounts figures. Department-by-department breakdowns of transfer payments and operating spending in subsequent tables rely heavily on the public accounts figures for the year in question; reconciliations with later restatements are contained in the "other" line. My aggregates for major transfers and total spending differ from those shown in the federal budget and highlighted in the public accounts in one important respect. The federal government's usual practice is to net Canada Child Tax Benefit and the GST Credit transfers against tax revenue as though they were reductions in taxes owing. In reality, however, these are transfer payments calculated with no reference to personal income taxes or GST paid by their recipients: the Auditor General has criticized the net presentation of the CCTB in the public accounts for a decade (see Receiver General for Canada 2002, 1.40) and similar logic applies to the GSTC (Robson 1997). I therefore add these transfers to spending and gross up revenues by the appropriate amounts.

2 The province of Quebec receives part of its entitlement under the CHST as extra tax room, rather than cash. Ottawa's current practice in recording spending connected with the CHST is to show gross cash entitlements to the provinces, with the amount not paid to Quebec appearing in a separate line ("Alternative Payments for Standing Programs"). To condense the exposition, I refer to CHST transfers net of this adjustment.

the Central Mortgage and Housing Corp. (CMHC) and the CBC, took a hit of $1.4 billion. Overall, federal transfers fell at an annual rate of more than five percent during that period.

At least as remarkable were the cuts made to spending on internal operations (Table 3), where government employees' reluctance to cut their own jobs, salaries and budgets makes savings notoriously difficult to achieve. The defence budget fell by $2 billion (see the left columns of the panels on the right). Somewhat extraordinary was the situation at Transport, where the hiving off of NAV Canada moved a major operation off the books. Even leaving these aside, many departments recorded dollar decreases in their expenditures during that period, and among those departments where spending rose, only three recorded increases larger than $100 million.

Overall, non-defence operating spending fell by $2.4 billion over the two years to 1996/97, an annual rate of decline of nearly six percent. During that same two-year period, Canadian GDP grew at a 4.2 percent average annual rate, while population and prices — a convenient measure of the pace of spending necessary to provide a constant inflation-adjusted level of services per Canadian — grew at a 2.9 percent rate, a contrast that illustrates the extent to which Ottawa reduced its claims on the Canadian economy while the crunch was on.[3]

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The Struggle to Maintain Discipline: 1996/97 to 1999/00

During 1997/98, 1998/99 and 1999/00, years in which the federal budget balance moved solidly into surplus, Ottawa largely succeeded in maintaining spending discipline.

Payments to seniors, low-income families with children and equalization-receiving provinces boosted Ottawa's major transfers to people and the provinces (see the middle columns of the panels on the right side of Table 2). Other transfers, however, grew relatively modestly. Falling unemployment reduced EI payouts. The now-notorious HRD grants went through their cycle of expansion and post-scandal contraction and, without the distortion of the $900 million transfer to the Canada Foundation for Innovation, booked to the Industry department, there was little net increase in discretionary transfers. Crown corporation expenditures also fell modestly, though the pace of the decline was nowhere near that of the previous two years.

Perhaps not surprising, but somewhat unsettling in view of later developments, Ottawa's spending on its own operations began to move in a different direction during this period (see the middle columns of the panels in Table 3). Even with the continued effects of restructuring at the transport department depressing the total, an overall rebound in spending on salaries, goods and services had by 1999/00 raised departmental operating spending, excluding defence, by $3.1 billion, enough to raise it above its level before the 1995 budget.

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3 I use the GDP implicit price index as my measure of inflation.

Return to Spending: 1999/00 to the Present

Despite the embarrassment of high-profile examples of poorly controlled spending in a number of departments, and rhetorical recognition of the need to continue running budget surpluses and make Canada's taxes less distorting and more competitive, discipline in spending since 1999/00 has all but vanished.

Looser eligibility rules and increased generosity of non-insurance benefits in the EI program amplified the effects of a slowing economy on joblessness between 1999/00 and 2001/02, sending EI benefits up at an annual rate of more than 10 percent (see the final columns in each panel on the right side of Table 2), while the number of unemployed Canadians rose at an annual rate of less than three percent. Enrichments to child benefits pushed them up as well, even while the number of children in Canada declined. And fresh injections into the CHST pushed total transfers to the provinces above their level before the cuts began. Departmental transfers accelerated between 1999/00 and 2001/02, while crown-corporation spending jumped.

Compensation of government employees and other current and capital spending rose across the board.

Most notable for the signal it provides about the changed atmosphere in Ottawa is the explosion of operating expenditures between 1999/00 and 2001/02 (see the final columns in each right-hand panel of Table 3). Compensation of government employees and other current and capital spending rose across the board. One might expect the justice department, with its escalating gun-registry costs, to stand out, but it has lots of company: operating expenses in five other departments recorded double-digit annualized rates of growth. Expressed in annual rates, the economy grew 5.5 percent over those two years and population and prices together grew 3.4 percent, while the federal government's operating expenditures rose 9.3 percent. In dollars, operating expenses rose by $4.3 billion in those two years, bringing the total increase since 1996/97 to $7.5 billion.

Figures published for the first seven months of the current fiscal year, 2002/03, show no slackening of the pace. From the beginning of April through the end of October, EI benefits climbed 11.5 percent from the same period a year earlier, continuing to rise faster than the unemployment figures would justify. Net CHST payments are running almost eight percent ahead of last year and spending on crown corporations rose seven percent. Spending on elderly benefits, one of the federal government's most relentless long-term obligations, is actually a moderating factor, at 4.3 percent.

Worse yet is the explosive growth of operating expenditures. Wage and other spending rose more than ten percent in the first seven months of 2002/03 from the year-earlier amount. Even if the full-year results show less extreme growth than the year-to-date figures, non-defence operating spending in 2002/03 will be about $6 billion ahead of its level in 1999/2000. Total program spending in 2002/03 is likely to register about $25 billion above its level in 1999/00 and about $33 billion ahead of where it was in 1996/97.

The Budget Challenge

Since the fiscal crunch, most concerns about federal program spending have centred on problems in individual programs, such as the HRD grants, public works contracts and, most recently, the huge cost over-runs in the gun registry. Robust budget surpluses and the phase-in of lower personal and corporate tax rates gave an impression that Ottawa's aggregate spending was still under control.

On current indications, however, 2002/03 will be the third year in a row in which total program spending has risen at least 1.5 percentage points faster than growth in the economy and at more than twice the rate of growth of prices and population. And 2002/03 will be the fourth year in which non-defence operating spending has risen at roughly twice the pace of growth in the economy and three times the rate of growth of prices and population. These figures do not describe a government that has its spending under control; they describe a government on a binge.

The Pre-Budget Debate

Canadians should keep these figures in mind when the debate over Ottawa's priorities intensifies in the weeks and days before the budget.

Almost every department — well-run and poorly run alike — shared in the post-1999 bonanza.

In recent years, arguments that reductions in low-priority programs should help finance new federal spending have typically inspired the retort that the cuts required for eliminating the deficit left most federal departments operating on a shoe-string and that there is no room left for reallocation. Federal managers have complained that the public service was rusting out and that physical infrastructure was running down. Whatever substance these rebuttals may have had in the late 1990s, the astonishing growth of operating expenditures since then makes them far less plausible today.

As Table 3 shows, almost every department — essential and non-essential, well-run and poorly run alike — has shared in the post-1999 bonanza. Other figures corroborate the story told by these public accounts figures. In the third quarter of 2002, the latest period for which numbers are available, federal government employment rose almost 11 percent from the same period three years earlier, a 3.4 percent annual rate of increase, while the federal wage bill climbed 30 percent, a 9.1 percent annual rate of increase.[4] The finance minister recently expressed skepticism about whether the increases in the federal public service are justified, and with good reason.[5] There are now as many people working for the federal government as there were in 1995 and, since the 1997 trough, the federal wage and salary bill has risen almost four times faster than population and prices combined.

Another common recent argument against restraint is that Canadians are telling pollsters that they support new government spending — even, provided the new money is designated for health care, that they would be ready to pay higher

4 Statistics Canada, CANSIM, Table 183-0002.

5 David Rider, "Manley suggests PS 'just getting fat again'," *Ottawa Citizen*, January 9, 2002, p. A6.

taxes to finance it. Pollsters have been getting this second answer, however, only when they do not permit respondents to select options involving greater efficiency, but limit their choices to cutting other programs, such as education.[6] Even when the subject is medicare, 80 percent-to-90 percent of poll respondents typically say that waste, rather than inadequate funds, is the key problem.[7] Confronted with actual figures on recent federal spending increases, especially on internal operations, it is hard to believe Canadians would readily support Ottawa's growing addiction to new funds by paying higher taxes.

Reallocating to Meet New Priorities

There is obvious bad news in this kind of spending growth. Outpacing the economy and federal revenue growth by a wide margin, it threatens future budget surpluses and tax cuts. Table 4, which shows the key budget aggregates — non-interest revenue, program spending and the primary balance, along with net debt charges and the total budget balance — since 1994/95 and makes some simple back-of-the-envelope projections for the next few years, illustrates the problem.

If trends for the current fiscal year were to persist, the federal government would show a deficit in 2002/03.

If the trends for the current fiscal year to date were to persist for the rest of the year, the federal government would show a deficit in 2002/03. In Table 4, however, I assume that a combination of richer revenues and spending restraint in the remainder of the year produce, as anticipated by the private-sector forecasters who participated in the projection exercise outlined in the October 2002 Economic and Fiscal Update, a $4 billion surplus for the year (Canada 2002b, 72). In the following two fiscal years, I project revenue growth in line with that assumed by the private sector forecasters — 5.9 percent, 4.2 percent and 5.0 percent in 2003/04, 2004/05 and 2005/06 respectively. I project program spending at the same compound annual rate of growth that has prevailed (including the assumed restraint this year) since 1999/00. Net debt charges evolve with the level of the net debt, with no change in the assumed average interest rate. While not too much should be made of the exact numbers, the basic message is obvious. Spending increases along the lines of the recent past will produce surpluses that are smaller than the contingency reserves and prudence factors that have guided the government's bottom line in recent years, and that decline over time, threatening a return to deficits or higher taxes before the end of the decade. Deficits could emerge even earlier in the event of an unforeseen event, including an economic slump.

The silver lining in the cloud, however, is that recent increases in spending — first and foremost the burgeoning expenditures on internal operations — mean

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6 See, for example, the directed focus group work in Maxwell et al., 2002.

7 In the *Maclean's* year-end 2002 poll, respondents were asked: "Do you think the problems with health care exist because not enough money is being spent on the system, or that enough money is being spent but the system is poorly managed and significant amounts of the money are wasted?" Twenty-five percent said that not enough was being spent; 75 percent said that the system was poorly managed (Jonathan Gatehouse, "Why So Cranky?" *Maclean's*, December 30, 2002, 36.) Eighty-eight percent of respondents to a November 2002 Ipsos-Reid poll agreed with the statement "We would not need to raise taxes to pay for improving healthcare if we just did a better job of spending the money that's being spent now, more efficiently" (www.angusreid.com/media/dsp_displaypr_cdn.cfm?id_to_view=1678, accessed January 14, 2003).

that the finance minister can fund new initiatives, at least in part, by trimming low-priority areas.

To illustrate the possibilities, suppose that the increases in non-defence departmental operating budgets since 1996/97 had been held to a rate equal to inflation plus population growth — in other words, that the real cost of federal government services to the average Canadian had been constant since then. The cumulative difference in operating spending between that scenario and what has actually occurred — even assuming proportional restraint this year sufficient to achieve the $4 billion surplus just described — is shown in Table 5. By 2001/02, growth in operating spending above the real per-person value recorded in 1996/97 amounted to $5 billion; in 2002/03, the cumulative difference will handily surpass $6.0 billion. The $1-billion-plus difference in one year between operating spending under current growth rates and under growth in line with prices and population shows how much extra fiscal room the government could obtain simply by maintaining its operating spending at a constant real value per Canadian.

To repeat, Canadians probably do not wish additional tax dollars that could finance other programs, pay down debt or stay in their hands untaxed to cover the federal government's burgeoning operating costs. If responsiveness to Canadians' wishes is not the driving force behind these spending increases, the key question becomes whether the current federal budget process is capable of containing them. Finance Minister Manley has made clear his desire to find savings in goverment operations.[8] The lesson from recent experience in Ottawa, in provincial capitals and abroad is that strong central control by a finance minister commanding support from a government leader promotes fiscal discipline more than a decentralized or fragmented system in which spending ministers have more bargaining power (McKenzie 2001, 20–27). The 2003 budget will yield fresh evidence about whether current political tensions in Ottawa condemn Canadians to another cycle of unsustainable spending, followed by cuts, higher taxes and, perhaps, even a return to borrowing.

Canadians probably do not wish additional tax dollars to cover the federal government's burgeoning operating costs.

Lesson for the 2003 Budget: Don't Add — Reallocate!

Tendentious polling, an expansive mood in Ottawa and a fragmented federal political situation are all obstacles to renewed fiscal discipline and the spending reallocations required to achieve it. But without fresh attention to federal spending, a serious deterioration in Ottawa's fiscal situation is inevitable.

The results from 2002/03 to date — a six percent year-over-year increase in net program spending (not including child benefits or the GST Credit) along-side a four percent year-over-year decline in net revenue — suggest that even rapidly falling interest costs do not guarantee continued surpluses. If spending continues to grow at its post-1999 rate, the federal government will either go back into deficit or begin raising taxes again before the end of the decade — a course that would be economically damaging and, whatever answers carefully designed poll questions elicit from focus groups, almost certainly politically damaging as well.

8 Simon Tuck, "Manley to crack whip on spending," Globe and Mail (Toronto), January 17, 2002, p. A5.

The need for Ottawa to look at its own operations for the funds with which to finance new initiatives is clear. The real issue is whether Canadians can anticipate sharper program cuts and perhaps even tax hikes in the latter half of this decade, or whether the 2003 budget will start the reallocations needed to put federal spending on a sustainable path. The new budget will show whether the finance minister can prevent Ottawa's spending binge from becoming an addiction.

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Table 1: ***Federal Spending Summary, 1994/95 to 2001/02***
($ billions, except where noted)

	Annual Levels								Changes					
									Percent at Annual Rate			*Dollars*		
	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	1994/95 to 1996/97	1996/97 to 1999/00	1999/00 to 2001/02	1994/95 to 1996/97	1996/97 to 1999/00	1999/00 to 2001/02
Major Transfers to Persons*	43.5	42.5	42.1	42.3	43.2	43.6	45.4	49.6	–1.6	1.2	6.7	–1.4	1.5	6.0
Major Transfers to Other Governments	26.3	26.1	22.2	20.5	25.5	23.2	23.7	26.6	–8.2	1.6	7.0	–4.2	1.1	3.4
Other Transfer Payments	20.0	18.2	17.5	22.5	18.7	18.5	23.5	19.9	–6.6	2.0	3.5	–2.5	1.1	1.3
Crown Corporations	5.0	4.3	3.6	2.5	3.5	3.0	2.9	4.1	–15.4	–6.2	17.6	–1.4	–0.6	1.1
Defence	10.7	9.9	8.7	8.9	8.8	10.2	9.7	10.6	–10.0	5.6	1.8	–2.0	1.5	0.4
Non-Defence Operations	21.4	19.0	19.0	20.3	20.2	22.1	23.8	26.4	–5.9	5.2	9.3	–2.4	3.1	4.3
Total Program Spending	*126.9*	*120.0*	*112.9*	*117.0*	*120.0*	*120.7*	*129.1*	*137.2*	*–5.7*	*2.2*	*6.6*	*–13.9*	*7.8*	*16.5*

* Includes Child Benefits and GST Credit.

Source: Receiver General of Canada, *Public Accounts for Canada*, various issues; author's calculations.

Table 2: ***Federal Transfer Payments, 1994/95 to 2001/02***
($ millions, except where noted)

	Annual Levels								Changes					
									Percent at Annual Rate			*Dollars*		
	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	1994/95 to 1996/97	1996/97 to 1999/00	1999/00 to 2001/02	1994/95 to 1996/97	1996/97 to 1999/00	1999/00 to 2001/02
Major Transfers to Persons														
Elderly Benefits	20,511	21,034	21,606	22,225	22,781	23,410	24,256	25,365	2.6	2.7	4.1	1,095	1,804	1,955
Employment Insurance Benefits	14,815	13,476	12,380	11,842	11,884	11,301	11,444	13,748	–8.6	–3.0	10.3	–2,435	–1,079	2,447
Child Benefits	5,322	5,215	5,239	5,352	5,715	6,000	6,811	7,557	–0.8	4.6	12.2	–83	761	1,557
GST Credit	2,816	2,799	2,872	2,892	2,850	2,920	2,902	2,964	1.0	0.6	0.8	56	48	44
Total Major Transfers to Persons	*43,464*	*42,524*	*42,097*	*42,311*	*43,230*	*43,631*	*45,413*	*49,634*	*–1.6*	*1.2*	*6.7*	*–1,367*	*1,534*	*6,003*
Major Transfers to Other Governments														
CHST (net of APSP)*	17,443	16,671	12,784	10,499	13,878	12,522	11,040	14,638	–14.4	–0.7	8.1	–4,659	–262	2,116
Fiscal Arrangements	8,870	9,405	9,418	10,000	11,645	10,721	12,467	11,603	3.0	4.4	4.0	548	1,303	882
Other	0	0	–41	5	0	0	217	375	—	—	—	–41	41	375
Total Major Transfers to Other Governments	*26,313*	*26,076*	*22,161*	*20,504*	*25,523*	*23,243*	*23,724*	*26,616*	*–8.2*	*1.6*	*7.0*	*–4,152*	*1,082*	*3,373*

Table 2: ***Federal Transfer Payments, 1994/95 to 2001/02 (continued)***
($ millions, except where noted)

	Annual Levels								Changes					
									Percent at Annual Rate			*Dollars*		
	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	1994/95 to 1996/97	1996/97 to 1999/00	1999/00 to 2001/02	1994/95 to 1996/97	1996/97 to 1999/00	1999/00 to 2001/02
Other Transfer Payments by Department														
Agriculture and Agri-Food	1,355	1,813	1,741	817	793	1,518	1,822	1,897	13.4	–4.5	11.8	386	–223	379
CCRA (other than GST Credit)	101	132	137	141	164	183	1,681	233	16.5	10.1	12.8	36	46	50
Canadian Heritage	535	488	552	578	593	717	785	867	1.6	9.1	10.0	17	165	150
Citizenship and Immigration	245	246	299	305	296	367	366	337	10.5	7.1	–4.2	54	68	–30
Environment	72	54	49	43	39	168	65	176	–17.5	50.8	2.4	–23	119	8
Finance	1,254	576	1,528	430	3,135	750	2,140	1,769	10.4	–21.1	53.6	274	–778	1,019
Fisheries and Oceans	107	79	160	54	249	253	240	173	22.3	16.5	–17.3	53	93	–80
Foreign Affairs and International Trade	2,544	2,081	2,052	2,084	2,065	2,114	2,358	2,405	–10.2	1.0	6.7	–492	62	291
Health	718	808	874	902	1,180	1,161	1,302	1,617	10.3	9.9	18.0	156	287	456
Human Resources Development	2,439	2,521	2,080	2,076	2,429	2,008	1,995	1,698	–7.7	–1.2	–8.0	–359	–72	–310
Indian Affairs and Northern Development	4,614	4,861	3,897	3,978	4,451	4,185	4,448	4,557	–8.1	2.4	4.3	–717	288	372
Industry*	2,226	2,402	2,093	2,977	2,282	2,971	2,079	2,628	–3.0	12.4	–5.9	–133	878	–343
Justice	311	299	294	314	337	374	417	415	–2.8	8.4	5.3	–17	80	41
National Defence	226	270	308	314	519	390	245	325	16.7	8.2	–8.7	82	82	–65
Natural Resources	614	280	80	61	49	148	129	257	–63.9	22.8	31.8	–534	68	109
Privy Council	52	2	2	26	17	38	93	33	–80.4	166.8	–6.8	–50	36	–5
Public Works and Government Services	442	439	57	89	109	15	4	14	–64.1	–35.9	–3.4	–385	–42	–1
Solicitor General	73	82	81	87	85	90	84	102	5.3	3.6	6.5	8	9	12
Transport	1,119	663	713	1,482	542	333	291	394	–20.2	–22.4	8.8	–406	–380	61
Treasury Board	496	1	1	4	40	36	9	21	–95.5	230.2	–23.6	–495	35	–15
Veterans Affairs	1,445	1,391	1,369	1,374	1,377	1,402	1,463	1,557	–2.7	0.8	5.4	–76	33	155
Other #	–995	–1,334	–908	4,341	–2,016	–686	1,487	–1,621	–	–	–	87	222	–935
Total Other Transfer Payments	*19,993*	*18,154*	*17,459*	*22,477*	*18,735*	*18,535*	*23,503*	*19,854*	*–6.6*	*2.0*	*3.5*	*–2,534*	*1,076*	*1,319*
Crown Corporation Expenditures	*5,003*	*4,321*	*3,578*	*2,548*	*3,497*	*2,953*	*2,903*	*4,082*	*–15.4*	*–6.2*	*17.6*	*–1,425*	*–625*	*1,129*
Total	*94,773*	*91,075*	*85,295*	*87,840*	*90,985*	*88,362*	*95,543*	*100,186*	*–5.1*	*1.2*	*6.5*	*–9,478*	*3,067*	*11,824*

* Includes predecessor programs or agencies.

\# Includes accounting changes.

Source: Receiver General of Canada, *Public Accounts for Canada*, various issues; author's calculations.

Table 3: ***Federal Operating Expenditures, 1994/95 to 2001/02***
($ millions, except where noted)

	Annual Levels								Changes					
									Percent at Annual Rate			*Dollars*		
	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	1994/95 to 1996/97	1996/97 to 1999/00	1999/00 to 2001/02	1994/95 to 1996/97	1996/97 to 1999/00	1999/00 to 2001/02
Non-Defence														
Agriculture and Agri-Food	785	759	774	931	787	883	908	1,018	–0.7	4.5	7.4	–11	109	135
Canada Customs and Revenue Agency	2,042	2,055	2,050	2,199	2,581	2,731	2,780	3,202	0.2	10.0	8.3	8	681	471
Canadian Heritage	845	806	817	764	758	859	965	903	–1.7	1.7	2.5	–28	42	44
Citizenship and Immigration	413	425	459	442	493	577	633	696	5.4	7.9	9.8	46	118	119
Environment	642	603	540	514	534	562	585	665	–8.3	1.3	8.8	–102	22	103
Finance	202	1,619	181	303	231	388	287	300	–5.3	28.9	–12.1	–21	207	–88
Fisheries and Oceans	678	1,179	1,170	1,092	1,080	1,127	1,275	1,299	31.4	–1.2	7.4	492	–43	172
Foreign Affairs and International Trade	1,176	1,101	1,127	1,153	1,248	1,335	1,369	1,575	–2.1	5.8	8.6	–49	208	240
Governor General	11	10	11	11	13	15	15	18	0.0	10.9	9.5	0	4	3
Health	1,164	1,054	976	974	1,083	2,053	1,427	1,573	–8.4	28.1	–12.5	–188	1,077	–480
Human Resources Development	1,412	1,643	1,599	1,505	1,858	1,687	1,721	2,215	6.4	1.8	14.6	187	88	528
Indian Affairs and Northern Development	367	362	371	572	475	513	631	547	0.5	11.4	3.3	4	142	34
Industry*	1,490	1,739	1,540	1,536	1,719	1,779	1,958	2,128	1.7	4.9	9.4	50	239	349
Justice	454	472	505	544	650	692	840	955	5.5	11.1	17.5	51	187	263
Natural Resources	1,139	609	538	523	561	567	601	638	–31.3	1.8	6.1	–601	29	71
Parliament	304	272	271	297	315	323	343	391	–5.6	6.0	10.0	–33	52	68
Privy Council	165	169	179	314	216	215	374	297	4.2	6.3	17.5	14	36	82
Public Works and Government Services	1,733	1,672	1,754	1,805	1,904	1,833	2,133	2,177	0.6	1.5	9.0	21	79	344
Solicitor General	2,526	2,580	2,584	2,637	2,664	2,920	3,013	3,407	1.1	4.2	8.0	58	336	487
Transport	1,360	342	771	440	289	280	339	368	–24.7	–28.7	14.6	–589	–491	88
Treasury Board	755	1,230	977	1,145	957	1,096	4,165	1,518	13.8	3.9	17.7	222	119	422
Veterans Affairs	530	546	521	560	619	675	645	705	–0.9	9.0	2.2	–9	154	30
Other #	1,218	–2,230	–742	18	–843	–990	–3,185	–158	—	—	—	–1,960	–248	832
Total Non-Defence	*21,411*	*19,017*	*18,973*	*20,279*	*20,192*	*22,120*	*23,822*	*26,437*	*–5.9*	*5.2*	*9.3*	*–2,438*	*3,147*	*4,317*
Defence	10,693	9,935	8,661	8,879	8,781	10,201	9,696	10,571	–10.0	5.6	1.8	–2,032	1,540	370
Total	*32,104*	*28,952*	*27,634*	*29,158*	*28,973*	*32,321*	*33,518*	*37,008*	*–7.2*	*5.4*	*7.0*	*–4,470*	*4,687*	*4,687*

* Includes predecessor programs or agencies.

\# Includes accounting changes.

Source: Receiver General of Canada, *Public Accounts for Canada*, various issues; author's calculations.

Table 4: ***Federal Budget Sun mary and Projection, 1994/95 to 2005/06***
($ billions)

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03E	2003/04P	2004/05P	2005/06P
Non-Interest Revenue*	126.4	133.8	144.8	157.3	159.5	169.8	183.2	177.9	178.0	188.4	196.4	206.2
Program Spending*	126.9	120.0	112.9	117.0	120.0	120.7	129.1	137.2	145.7	155.1	165.1	175.8
Primary Balance	*–0.4*	*13.8*	*31.9*	*40.3*	*39.5*	*49.1*	*54.1*	*40.8*	*32.3*	33.3	*31.3*	*30.4*
Net Debt Charges	–37.0	–42.4	–40.8	–36.5	–36.4	–36.4	–36.0	–31.8	–28.3	–28.0	–27.8	–27.7
Total Balance	*–37.5*	*–28.6*	*–8.9*	*3.8*	*3.1*	*12.7*	*18.1*	*8.9*	*4.0*	*5.3*	*3.4*	*2.7*

* Gross of Child Benefits and GST Credit.

Source: Receiver General of Canada, Public Accounts for Canada, various issues; author's calculations.

Table 5: ***Non-Defence Operating Spending 1996/97 to 2002/03***
Actual and Hypothetical with Constant Real Per-Person Costs
($ billions)

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03E
Actual	19.0	20.3	20.2	22.1	23.8	26.4	28.1
Growth with Prices and Population	19.0	19.4	19.5	20.1	21.0	21.4	21.9
Cumulative Difference since 1996/97	*0.0*	*0.9*	*0.7*	*2.1*	*2.8*	*5.0*	*6.2*

Source: Receiver General of Canada, Public Accounts for Canada, various issues; author's calculations.

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